

**IN THE CHANCERY COURT FOR LEWIS COUNTY
AT HOHENWALD, TENNESSEE**

IN RE:

SENTINEL TRUST COMPANY

NO. 4781

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**ACTING COMMISSIONER-IN-POSSESSION'S AND SENTINEL TRUST
RECEIVER'S SUPPLEMENTAL MEMORANDUM REGARDING
OBJECTION FROM RELIANCE HEALTHCARE MANAGEMENT, INC.
TO SCHEDULE OF CLAIM DETERMINATIONS**

I. INTRODUCTION AND BACKGROUND

At the hearing on April 12, 2006, the Court heard objections filed against the Schedule of Claim Determinations. One of those objections had been filed by Reliance Healthcare Management, Inc. ("Reliance") which objected to its claim being denied as duplicative and improper.

Reliance is, itself, a receiver in the Texas state court receivership action ("Tyler, Texas Receivership") that was initiated when a bond issue, to which Sentinel Trust was indenture trustee -- the Park Place/Tyler, Texas bond issue -- fell into default ("Tyler, Texas Bond Issue"). Just prior to the claims bar deadline in late July 2005, Reliance filed a claim in the Tennessee Sentinel Trust Receivership (i.e., this proceeding) claiming as against funds that should have been in the Sentinel Trust Pooled Fiduciary Account regarding the defaulted Tyler, Texas Bond Issue. Reliance's Proof of Claim requests that those funds be transferred to the Tyler, Texas Receivership (alleging that the funds "belonged" to the Tyler, Texas Receivership) to address claims made in that forum. Reliance expressly made its claim on behalf of creditors and vendors

who were making claims in the Tyler, Texas Receivership.¹ See Exhibit A -- Reliance Proof of Claim form (highlighted portions). The Reliance claim was denied for two reasons. First, the Sentinel Trust Receiver (“Receiver”) had received numerous claims directly from various of the Tyler, Texas Receivership creditors and vendors,² and, thus, Reliance’s efforts to claim on behalf of those claimants were duplicative. Second, it was improper for Reliance to pursue claims on behalf of others who had received the notice to file claims in the Tennessee Sentinel Trust Receivership, but had chosen not to pursue the claims.

The Receiver’s position on this matter -- i.e., that notice given by the Receiver to claimants in other receivership actions to file claims in the Sentinel Trust Receivership should bar the other receivers’ pursuit of a claim on behalf of those claimants -- is not unique or foreign to Sentinel Trust and Reliance. Indeed that is exactly what happened, and what Reliance agreed to, in another local Texas receivership to which Reliance was the substitute receiver -- Texas Choice Communities, Inc. and Harvest Communities, Inc. (City of Pearsall) receivership (hereinafter “Texas Choice” and “City of Pearsall”).

Similar to the Tyler, Texas Bond Issue, the Texas Choice and City of Pearsall Bond Issues had Sentinel Trust as their indenture trustee and both fell into default. Local Texas state court receivership actions were initiated, but were removed to federal district court and consolidated into one action -- Sentinel Trust Co. v. Texas Choice Communities, Inc., et al,

¹ Lest there be any doubt that Reliance’s claim is on behalf of the claimants in the Tyler, Texas Receivership, attached to its Proof of Claim is a listing of the claimants in the Tyler, Texas Receivership. See Exhibit A. Interestingly, the two largest claimants on that list -- East Texas Therapy Solutions and Therapy Management Solutions -- are among the companies that acted upon the notice received from this Receivership and filed claims in the Sentinel Trust Receivership action. Both of these companies have written letters to the Court asking the Court to reject Reliance’s Objection. See Exhibits B and C hereto.

² As discussed in previous filings, the Receiver had sent a notice to all of the Tyler, Texas Receivership creditors and vendors who had asserted claims in the Tyler, Texas Receivership which informed those creditors and vendors of the Tennessee Sentinel Trust Receivership proceeding, that they were potential claimants and that they could file, and should consider filing, claims in the Tennessee proceeding. In that notice was a Proof of Claim form from the Tennessee Sentinel Trust Receivership for the creditors’ and vendors’ use.

Civ. # H-00-2179 (S.D. Tex., Houston Division) (“Houston Receivership proceeding”). Reliance was substitute receiver in that proceeding, just as it was in the Tyler, Texas Receivership proceeding. For the same reasons as in the Tyler, Texas Receivership,³ the Receiver sent notice to all of the claimants in the Houston Receivership proceeding informing them that they could pursue a claim in the Sentinel Trust Receivership and providing to them a Proof of Claim form for their use, if they decided to pursue the claim. As in the case with the Tyler, Texas Receivership matter, some of the claimants in the Houston Receivership proceeding filed a claim in the Sentinel Trust Receivership; others did not. As the bar date in the Sentinel Trust Receivership drew near, Reliance filed an omnibus claim in the Sentinel Trust Receivership on behalf of the claimants in the Houston Receivership proceeding, just as it had done in relation to the Tyler, Texas Receivership claimants.

Upon being apprised of these matters and upon the urging of Reliance and the Receiver, the Houston Receivership judge entered an order, on September 16, 2005, which stated, amongst other matters, as follows:

The Court finds that all individual claimants herein have been provided notice of their rights to file claims in the Tennessee Sentinel Trust Receivership action. Therefore, the Court finds it unnecessary for [Reliance] to pursue any proof of claim in the Tennessee Sentinel Trust Receivership action on behalf of the claimants herein.

See copy of Houston Receivership Order attached as **Exhibit D** (brackets added for clarity).

³ It was clear that there was a relatively small amount of money held by Reliance in the Houston Receivership proceeding. Thus, to the extent that the claims of the claimants in the Houston Receivership proceeding were unsatisfied, those claimants could pursue separate and individual claims in the Sentinel Trust Receivership.

II. SUPPLEMENTAL MEMORANDUM

a) **Reliance's Appointment as Receiver Related to Operating and Maintaining the Tyler, Texas Facility**

At the April 12, 2006 hearing, the Court requested further briefing from the Receiver and Reliance⁴ concerning the authority that Reliance had, under the Tyler, Texas Receivership Court's orders of appointment, to pursue the claims of the Tyler, Texas Receivership claimants in the Tennessee Sentinel Trust Receivership proceeding. See Exhibit E (transcript of April 12, 2006 hearing on Reliance Objection) at pp. 71-72. Attached as **Exhibits F and G** to this Supplemental Memorandum are the two (2) Tyler, Texas Receivership Court Orders from which Reliance draws its authority. **Exhibit F** is a November 19, 1999 Agreed Order Appointing Receiver and Granting Injunctive Relief ("Tyler, Texas Receivership Order") which was entered at the beginning of the Tyler, Texas Receivership proceeding and which appointed Tri-Health Services as the original receiver. **Exhibit G** is a December 9, 2003 Order Substituting Receiver ("Tyler, Texas Order Substituting Receiver"), which appoints Reliance as the substitute receiver for Tri-Health Services.

A review of these two Tyler, Texas Receivership Court Orders reveals a narrow scope as to what the Tyler, Texas Receiver was/is empowered to do -- to manage, operate or maintain the Park Place Tyler, Texas nursing home facility (the "Tyler, Texas Facility"). Neither of those Orders expressly set forth, as a duty of the Tyler, Texas Receiver, the pursuit and marshalling of assets of the Tyler, Texas Receivership and the pursuit of claims, in other forums, on behalf of claimants in the Tyler, Texas Receivership.

⁴ At the April 12, 2006 hearing, Landis Turner, Esq. of the Lewis County Bar entered appearance on behalf of Reliance.

The Tyler, Texas Receivership Order (**Exhibit F**) is replete with limiting references as to the Tyler, Texas Receiver's authority. In the "findings" section of the Tyler, Texas Receivership Order, which established the basis for the appointment of the Tyler, Texas Receiver, the Tyler, Texas Receivership Court finds matters such as

- a) "[The Tyler, Texas Bond Issue documents] give Sentinel the right, as indenture trustee, to seek appointment of a receiver to take possession, custody, and control of the [Tyler, Texas Facility] for the purpose of renting, maintaining and operating the same while Sentinel pursues its other remedies [regarding marshalling and liquidation of assets];"
- b) "the importance [of] the [Tyler, Texas Facility] continue[ing] as a going concern to protect its value;" and
- c) "[the relief sought by Sentinel, including appointment of a receiver, was justified] in order to secure the health and welfare of the residents of the [Tyler, Texas Facility] by assuring that appropriate healthcare continues to be provided [to] them without interruption."

See Exhibit F at pp. 5-6 (§§ 11, 12 & 13) (brackets added for clarity and context, emphasis added).

In the "It is hereby Ordered" section of the Tyler, Texas Receivership Order, the Tyler, Texas Receivership Court ordered as follows:

- a) "[the Tyler, Texas Receiver] is hereby appointed as Receiver of all of the Collateral [i.e., the Tyler, Texas Facility, its contents, its accounts receivable, etc.], and is hereby directed, immediately, to enter upon, receive, and take possession . . . [and] operate the [Tyler, Texas Facility] on said premises;" and
- b) "[the Tyler, Texas Receiver] is hereby granted all of the usual, necessary and incidental powers of Receivers for the purposes of managing, operating, and maintaining the property."

See Exhibit F at p. 6 (§§ 2 & 3) (brackets added for clarity and context, emphasis added).

Paragraph 3 of the Tyler, Texas Receivership Order enumerates numerous matters which the Tyler, Texas Receiver was authorized to do, all of which, however, relate to the management,

operation and maintenance of the Tyler, Texas Facility. **Exhibit F** at pp. 6-9. The Tyler, Texas Order Substituting Receiver (**Exhibit G**), in similar fashion, granted Reliance, as substitute receiver

... all the usual, necessary and incidental rights powers, duties, authority and protections ordinarily granted to a receiver for the purpose of managing, operating, maintaining and preserving the Collateral [i.e., the Tyler, Texas Facility] and which were previously granted to the Receiver in the Receivership Order.

Exhibit G at p. 4 (emphasis and brackets added).

Accordingly, the predominant, if not exclusive, focus of the authority given to Reliance as the Tyler, Texas Receiver was in relation to or “for the purpose of” the operation of the Tyler, Texas Facility and the maintaining of that facility as collateral. Aside from protecting the Tyler, Texas Facility itself and continuing with its operations, the Tyler, Texas Receivership Court Orders do not specifically authorize the Tyler, Texas Receiver to secure or pursue any other asset that might belong to the Tyler, Texas Receivership estate. Nowhere is anything mentioned regarding the Tyler, Texas Receiver being authorized to pursue claims elsewhere on behalf of the Tyler, Texas Receivership claimants. In the Tyler, Texas Order Substituting Receiver, (**Exhibit G** hereto), Reliance is granted “any and all other rights as the [Tyler, Texas Receivership] Court may consider necessary.” But, under that language, the Tyler, Texas Receivership Court would necessarily have to issue orders instructing Reliance on what it considered necessary for Reliance to do before that generalized authority would be effective. The Receiver is unaware of any order from the Tyler, Texas Receivership Court wherein the Tyler, Texas Receiver had been instructed to pursue, in other forums, the claims of the Tyler, Texas Receivership claimants.

No doubt, Reliance feels that it should pursue the claim it has made in the Tennessee Sentinel Trust Receivership proceeding to protect the claimants that have claims in the Tyler, Texas Receivership. But, respectfully, the Tyler, Texas Receivership Court Orders, which grant the powers to the Tyler, Texas Receiver, do not provide for such. Again, the Tyler, Texas Receivership claimants, on whose behalf Reliance is pursuing its claim in the Tennessee Sentinel Trust Receivership proceeding, were all given notice of, and had the opportunity to file claims in this proceeding. Some did; others did not. Reliance has no authority to “cover” for those who did not.

b) Houston Receivership Order Provides Precedent to Deny Reliance’s Claim

The situation confronting this Court regarding Reliance’s claim made on behalf of the Tyler, Texas Receivership claimants is very similar to the situation faced by the Houston Receivership Court. In that situation, the Houston Receivership Court knew that the Houston Receivership claimants had been informed by the Sentinel Trust Receiver of their ability to pursue claims in the Tennessee Sentinel Trust Receivership and, due to that, held that it was “unnecessary” for Reliance to pursue any Proof of Claim on their behalf in the Tennessee Sentinel Trust Receivership. **Exhibit D** at p. 2. The same result should apply in this context. All of the Tyler, Texas Receivership claimants have had the opportunity to file claims in the Sentinel Trust Receivership. It is, therefore, unnecessary for Reliance to pursue any Proof of Claim on behalf of the Tyler, Texas Receivership claimants in this Receivership.

c) Summation

Accordingly, for the reasons stated in the Acting Commissioner-in-Possession’s and Receiver’s March 27, 2006 Reply to Reliance Objection, because the Tyler, Texas Receivership Court Orders appointing Reliance (and its predecessor) do not authorize Reliance to pursue, in

other forums, claims made by claimants in that proceeding, and because of the precedent provided by the Houston Receivership Order (**Exhibit D**), Reliance's Objection to the Schedule of Claim Determinations should be overruled.

III. DETERMINATION OF RELIANCE'S OBJECTION NEED NOT FORESTALL APPROVAL OF THE OTHER CLAIM DETERMINATIONS AND THE PROPOSED METHODOLOGY FOR DISTRIBUTIONS

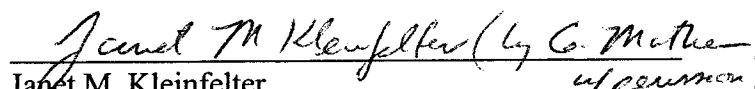
Determination of Reliance's Objection should not prevent the Court from proceeding to approve all other portions of the Schedule of Claim Determinations (except the Tyler, Texas/Park Place category of claim determinations set forth in that Schedule) and the proposed methodology for calculating distributions. The Reliance Objection will have impact upon the aggregate amount of claims within the Tyler, Texas category of claims and, thus, would have impact on the pro rata payments of a future distribution amongst that category of claimants. But, Reliance's Objection will have no impact upon all the other categories of claimants in the Tennessee Sentinel Trust Receivership and will have no impact upon pro rata distributions as to those other categories of claimants, if the Court were to approve any such distribution.⁵ Accordingly, a determination of the Reliance Objection, while important to those claiming in regard to the Tyler, Texas Bond Issue (see Exhibits B and C), should not prevent or forestall the Court from approving the remainder of the Schedule of Claim Determinations (other than the Tyler, Texas portion) as well as the methodology of calculating distributions to claimants.

⁵ The Acting Commissioner-in-Possession and Receiver do not seek approval of an interim distribution at this time. Approval is being sought only as to the Schedule of Claim Determinations and the proposed methodology of calculating distributions. It is, of course, the express intent of the Acting Commissioner-in-Possession and Receiver to move for approval of an interim distribution in the near future. If the Reliance Objection (and, thus, the status of the Tyler, Texas group of claimants) is not determined by that time, the Receiver can simply hold in reserve the payments that would go to the Tyler, Texas claimants from any proposed distribution. See T.C.A. § 45-2-1504(g).

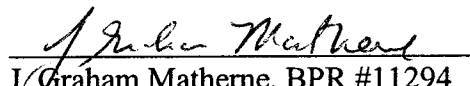
IV. IF THE COURT SUSTAINS RELIANCE'S OBJECTION, REVIEW AND POTENTIAL ADJUSTMENT OF THE CLAIM IS STILL NEEDED

The Receiver denied Reliance's claim based on the grounds of duplication and impropriety. Therefore, the Receiver never reviewed, examined or adjusted the gross amount claimed by Reliance. If the Court sustains Reliance's Objection, the Acting Commissioner-in-Possession and Receiver request that the Order sustaining the Objection also state that the Receiver, while ordered to accept the claim, is still to review and adjust the claim, as appropriate, and issue its recommendation as to the approved amount of that claim.

Respectfully submitted,


Janet M. Kleinfelter
Attorney General's Office
425 5th Avenue North
P.O. Box 20207
Nashville, TN 37243
(615) 741-7403

Counsel for Acting Commissioner Greg Gonzales


J. Graham Matherne, BPR #11294
Wyatt, Tarrant & Combs, LLP
2525 West End Avenue, Suite 1500
Nashville, TN 37203-1423
(615) 244-0020

*Counsel for Receivership Management, Inc.,
Receiver of Sentinel Trust Company*

CERTIFICATE OF SERVICE

This is to certify that on May 12th, 2006 a copy of the foregoing Supplemental Memorandum has been sent by First Class U.S. Mail, postage paid, and also by facsimile as noted, to:

James S. Chase
John A. Decker
Hunton & Williams LLP
900 South Gay Street, Suite 2000
P.O. Box 951
Knoxville, TN 37901

Carrol D. Kilgore
Attorney at Law
95 White Bridge Road
Suite 509, Cavalier Building
Nashville, TN 37205-1427

Donald Schwendimann
12 East Fourth Avenue
P.O. Box 366
Hohenwald, TN 38462
also via fax (931-796-5692)

Larry Stewart
Stokes, Bartholomew, Evans & Petree
424 Church Street, Suite 2800
Nashville, TN 37219

David D. Peluso
P.O. Box 250
Hohenwald, TN 38462-0250

James S. Hereford, Jr.
310 W. College Street
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Fayetteville, TN 37334-0802

Diana M. Thimmig
Roetzel & Andress
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One Cleveland Center, Ninth Floor
Cleveland, OH 44114

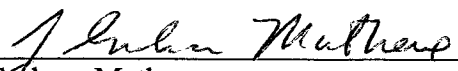
Tobey Koehler
Reliance Health Care Management, Inc.
723 Parkway Street
Conway, AR 72034

Pam Roberts
General Counsel
Reliance Health Care Management, Inc.
723 Parkway Street
Conway, AR 72034

Jonathan D. Baughman
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Houston, TX 77010

Phillip N. Cockrell
Patton, Haltom, Roberts,
McWilliams & Greer, LLP
P.O. Box 6128
Texarkana, TX 75505

Landis Turner, Esq.
Keaton & Turner
102 N. Court Street
P.O. Box 789
Hohenwald, TN 38462-0789



J. Graham Matherne

PLEASE READ THIS FORM CAREFULLY AND NOTE THAT YOU ARE MAKING THE FOLLOWING STATEMENTS UNDER OATH:

**PROOF OF CLAIM
AGAINST**

RECEIVED
JUL 21 2005

SENTINEL TRUST COMPANY BY: _____
000861

BEFORE ME, the undersigned Notary Public, appeared the person whose name is subscribed hereto, who states under oath that, after deducting all offsets and counterclaims the above entity is indebted to her/him as follows:

(Receiver's Use Only)

Claimant Name: Reliance Health Care Management, Inc., Receiver* Claim No. _____
Reliance Health Care Management, Inc., in its capacity as court appointed Receiver in *Sentinel Trust Company v. Park Place, Ltd. and Tyler Health Facilities Development Corporation*, Dist. Court of Smith County, Texas, Case No. 99-2572-A (the "Receivership Case"), relative to the Park Place Nursing Center nursing home property which was located at 2450 East Fifth Street, Tyler Smith County, Texas (the "Tyler Park Place Property") and on behalf of all creditors who have valid** proofs of claim in the said Receivership Case. A list of claimants in the Receivership Case is attached hereto. The Tyler Park Place Property served as collateral for \$6,055,000 bonds issued by the Tyler Health Facilities Development Corporation. Sentinel Trust Company was the indenture trustee for the bonds. **Validity and amount to be paid on claims to be determined by the Court in the Receivership Case.

Claimant Address: 723 Parkway Street
Conway, Arkansas 72034

E-Mail: badams@reliancehealthcare.com

Tax ID: # _____ 71-0812835 _____

(Required)

To the extent that the claim relates to a specific bond issue, that information is as follows:

Bond Issue Name: Tyler Health Facilities Development Corporation

Series No: Unknown. Cert# Unknown. CUSIP#: Unknown.

Type of Claim: _____ Bond Issuer _____ Bondholder ☒ Other

Amount of Claim: Unknown Interest \$700,000 Principal _____ Other _____

If filing a claim other than which relates to a specific bond issue (i.e. employer or vendor), please state the following:

Nature of Claim: Claim for funds belonging to Tyler Park Place Receivership held by Sentinel Trust.

Amount: Estimated \$700,000.

Please attach all supporting documentation for any claim.

That the above is TRUE & CORRECT, justly owed, and no part of the amount claimed has been paid by Sentinel Trust Company, or any other source. Should monies from any other source be disbursed, I will contact the Receiver and report the amount.

Claimant Signature

SUBSCRIBED AND SWORN BEFORE ME, this 20th day of July, 2005

"NOTARY SEAL"
Amy Rollins, Notary Public
Pulaski County, State of Arkansas
My Commission Expires Dec. 4, 2012.

NOTARY PUBLIC

NOTARY NAME TYPED/PRINTED

My Commission Expires: Dec 4, 2012

ALL CLAIMS MUST BE PRESENTED AT THIS ADDRESS ON OR BEFORE July 31, 2005, 4:30PM CST

Receivership Management, Inc. P.O. Box 2307 Brentwood, TN 37024 or 215 Centerview Dr., Suite 133 Brentwood, TN 37027 (615) 370-0051 (Filings by Fax are not accepted)

EXHIBIT

A

tabbles

PARK PLACE, LTD
TRADE VENDOR CLAIMS

VENDOR	DOLLAR AMT OF CLAIM	PROPOSED ADJUSTMENT TO CLAIM	ADJUSTED CLAIM
AME LABORATORIES	4,194.50	(1,871.44)	2,323.06
AMERICAN FACTORS CORPORATION	20,562.01	(2,910.26)	17,651.75
AMERICAN PHARMACY SERVICES	69.00		69.00
BROOKSHIRE GROCERY COMPANY	2,583.69		2,583.69
DYNAMEDICS CORP	40,052.50		40,052.50
EAST TEXAS COPY SYSTEMS, INC.	609.32		609.32
EAST TEXAS THERAPY SOLUTIONS	171,849.13	✓	171,849.13
GENE AUTRY EQUIPMENT CO.	337.73		337.73
LINDA SMITH	3,060.00		3,060.00
OKLAHOMA NURSING HOME SUPPLY	3,531.10		3,531.10
OLMSTED-KIRK PAPER COMPANY	3,593.44		3,593.44
ON HOLD GOLD MARKETING	270.35		270.35
SWAN ELECTRICAL SERVICE CORP.	6,882.21		6,882.21
TEXARKANA SCALE SERVICE	889.37		889.37
THERAPY MANAGEMENT SOLUTIONS	69,198.77	✓	69,198.77
TPS, INC.	247.50		247.50
TRINITY CLINIC	3,043.00		3,043.00
TOTALS	<u>330,973.62</u>	<u>(4,781.70)</u>	<u>326,191.92</u>

April 7, 2006

(Fax No. 931-796-6017)

Sent via Facsimile

Presiding Judge
Chancery Court of Lewis County
c/o Lewis County Clerk and
Master's Office
Lewis County Courthouse, Room 208
110 N. Park Street
Hohenwald, Tennessee 38462

RE: Sentinel Trust Receivership Proceedings
Chancery Court for Lewis County at Hohenwald,
Tennessee, Cause No. 4781

Dear Sir/Madame:

East Texas Therapy Solutions, LLC, is one of the claimants in the Sentinel Trust Receivership Proceedings. We have received a copy of a legal document sent to us by the attorneys for the Sentinel Trust Receiver. We are writing this letter to express support of the Sentinel Trust Receiver and its objections to the Proof of Claim filed by Reliance Health Care Management, Inc. as a "global claim" for claimants in another receivership pending in Tyler, Texas. Since we have filed our own claim in this case on behalf of East Texas Therapy Solutions, we believe the claim filed by Reliance Health Care should not be allowed to interfere with or dilute our claim that is pending in the Tennessee Court.

Thank you for your cooperation and for your consideration of this letter. Please let me know if we need to do anything further.

Yours very truly,

EAST TEXAS THERAPY
SOLUTIONS, LLC

By: _____


Art Taucher

cc: Mr. Graham Matherne (via Facsimile)
(Fax No. 615-256-1726)

EXHIBIT

B

April 10, 2006

Fax No. 931-796-6017

Presiding Judge
Chancery Court of Lewis County
c/o Lewis County Clerk and
Master's Office
Lewis County Courthouse, Room 208
110 N. Park Street
Hohenwald, Tennessee 38462

FILED
AT 12:54 O'CLOCK P. M.

APR 12 2006

JANET WILLIAMS, CLERK & MASTER
BY Selena Wix

Re: In Re: Sentinel Trust Company, No. 4781, In the Chancery Court for Lewis County at
Hohenwald, Tennessee

Dear Judge:

I am writing on behalf of Therapy Management Solutions LLC, one of the creditors in these proceedings. Therapy Management timely submitted a claim with the Receiver in this matter. It is our understanding that the Receiver has approved Therapy Management's claim and has proposed an interim payment to creditors such as Therapy Management. Therapy Management strongly opposes the objection filed by Reliance Healthcare Management, Inc. in this matter scheduled to be heard by this Court on April 12, 2006. It is our understanding that Reliance's efforts will dilute amounts that have been recommended to be paid to Therapy Management by the Receiver.

If the Court were to grant Reliance's objection, other creditors that failed to submit timely claims and failed to provide any supporting documentation would be granted preferential treatment to parties such as Therapy Management who took the time and devoted the resources to submit timely claims. The granting of Reliance's objection would result in inequitable treatment to Therapy Management which has already suffered extreme losses. For these reasons, Therapy Management is opposed to Reliance's objection.

Therapy Management Solutions, LLC

B. G. Biló

By:

B. G. Biló, President

EXHIBIT

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Therefore, the Court finds it unnecessary for the Receiver herein to pursue any proof of claim in the Tennessee Sentinel Trust Receivership action on behalf of the claimants herein. The Receiver is hereby authorized and ordered to dismiss the proof of claim it filed in the Tennessee Receivership action.

3. The Court has been advised by the Receiver that as a result of an audit conducted by the Centers for Medicaid and Medicare Services additional funds are expected to be received for distribution in this receivership. Therefore, the Court requests that the Receiver provide a final report to include notice of collection of those funds, a proposed distribution of those funds and a request for payment of any additional fees and costs incurred by the Receiver from those funds.

SIGNED this 16th day of Sept, 2005, in Houston, Texas.


NANCY K. JOHNSON
U.S. MAGISTRATE JUDGE

IN THE CHANCERY COURT OF LEWIS COUNTY
AT HOHENWALD, TENNESSEE

IN RE: SENTINEL TRUST COMPANY)
)
)

Case No. 4781

IN THE CHANCERY COURT FOR THE STATE OF TENNESSEE
21ST JUDICIAL DISTRICT, LEWIS COUNTY

KEVIN P. LAVENDER, et al)
)
)

Plaintiffs,)
)
)

v.)
)
)

No. 4980

DANNY N. BATES, et al)
)
)

Defendants.)
)
)

April 12, 2006

Lewis County Chancery Court
Lewis County Courthouse
Hohenwald, Tennessee 38462

COPY

The above-entitled matter came on for hearing
at 1:00 p.m., before:

The Honorable J. STEVEN STAFFORD
Chancellor

ANDERSON Court REPORTING
Route 1, Box 254B1
Linden, TN 37096
(O) 931.589.3839
(F) 931.589.2778
E-mail: Stephensharo@aol.com

EXHIBIT

E

APPEARANCES:

On behalf of Jeanne Barnes Bryant and Receivership
Management, Inc., Receiver of Sentinel Trust:

J. GRAHAM MATHERNE
WYATT, TARRANT & COMBS
2525 West End Avenue, Suite 1500
Nashville, Tennessee 37203-1423
Phone 615.244.0020

On behalf of the Attorney General's Office:

JANET M. KLEINFELTER
Senior Counsel
General Office
425 5th Avenue, North
Nashville, Tennessee 37243

On behalf of Mr. Bates:

DONALD SCHWENDIMANN
Attorney at Law
306 W. Main Street
P.O. Box 366
Hohenwald, Tennessee 38462
Phone 931.796.1147

On behalf of Reliance Healthcare Management:

LANDIS TURNER
Attorney at Law
Keaton, Turner & Spitzer Attorneys
102 N Court Street
Hohenwald, Tennessee 38462
Phone 931.796.2264

P R O C E E D I N G S

(1:00 p.m.)

CHANCELLOR STAFFORD: Good afternoon.

MR. MATHERNE: Good afternoon, Your Honor.

CHANCELLOR STAFFORD: I notice we have several matters set for hearing today. I don't particularly care what order they are -- we proceed in. I assume, Mr. Matherne, you --

MR. MATHERNE: I've got a proposal, Your Honor.

CHANCELLOR STAFFORD: All right.

MR. MATHERNE: There are several that I would consider unopposed and that relate to Receivership business: the Nashville-Florida motion to approve that sale, the motion to approve the distribution of the Dade City settlement funds, the fee approval motion. I would also ask that we also consider the motion to sell -- motion for approval of the sale of the Hohenwald property. That will then clear out all the motions that do not have to do with the motion for approval of schedule of determinations and the methodology of distributions.

So if that's acceptable to Your Honor, we'll proceed that way.

CHANCELLOR STAFFORD: Sounds good to me unless there's some objection.

Any objection to proceeding that way?

1 MR. MATHERNE: -- which does have as a reasoning
2 for your denial, Your Honor, not only the substance --
3 lack of substance of the objection but also the fact of
4 late-file.

5 CHANCELLOR STAFFORD: All right, sir.

6 MR. MATHERNE: And, Your Honor, I'm sorry to
7 have taken the time, but I appreciate it.

8 Now for Reliance.

9 CHANCELLOR STAFFORD: No problem.

10 MR. MATHERNE: Your Honor, an objection had been
11 filed by Reliance Healthcare. Reliance Healthcare had
12 filed an objection to a denial of the claim that it had
13 filed relating to the Tyler, Texas/Park Place bond
14 default. Reliance is a Texas State court-appointed
15 Receiver of a local Receivership in Tyler, Texas relating
16 to that particular bond default.

17 The objection requests reconsideration of the
18 denial and the awarding of the full amount of the claim,
19 that being a \$700,000 claim. Excuse me. They say that
20 they have a \$700,000 estimated claim.

21 Your Honor, since the very beginning of the
22 Receivership, we've been aware and been knowledgeable and
23 have to a greater or lesser extent participated in some of
24 the proceedings down in Tyler, Texas.

25 And we knew two things. Number one is that

1 there was a positive cash balance shown in the books and
2 records of Sentinel Trust, indicating on the Tyler bond
3 default that there should have been about \$430,000. Maybe
4 \$435,000 should have been in the pooled fiduciary account
5 being held on behalf of Tyler, Texas defaulted bond.

6 We also knew that at a local level in Tyler,
7 Texas that there were a lot of claimants that had filed
8 claims in that proceeding, typically the vendors and the
9 people of trade creditors. And that there was not going
10 to be enough money. That that local Receiver didn't have
11 enough money to address all of those claims.

12 That being the situation, Your Honor, and with
13 knowledge of Reliance Healthcare, the Receiver at the
14 local level, we went ahead and provided notice to each and
15 every vendor creditor, vendor claimant that had made claim
16 at a local level in Texas, informing them that they had a
17 claim up here if they wanted to pursue it and giving them
18 a proof-of-claim form to fill out and send with supporting
19 information and informing them of the bar date of July 31,
20 2005.

21 And that was with -- and Reliance knew of it.
22 And we thought that would be a way to address it. Ease up
23 the things down there and let them come to Tennessee and
24 pursue their claims because there would not be enough for
25 them to be paid down at the local level.

1 The bar date passed and five claimants that were
2 also claimants in the Texas Receivership filed claims
3 within this Receivership. So we know the Notice was
4 received. We know the Notice worked because some chose to
5 heed it. Some chose to ignore it.

6 Your Honor, the circumstances here is that
7 Reliance is coming in and making an omnibus estimated
8 claim on behalf of people that already had notice of this
9 Receivership proceedings and the proof-of-claim process
10 that this Receivership was conducting and who chose to
11 ignore it.

12 Now from that perspective, Your Honor, we feel
13 that two things give rise to reasons why Reliance
14 objections should be overruled. Number one, certainly to
15 the extent that there were these individuals that did heed
16 the notice to come to Tennessee and file a claim for the
17 money that should have been in the fiduciary -- pooled
18 fiduciary account. That as to those five, certainly the
19 efforts on Reliance are totally duplicative and should
20 yield to the individuals who vigilantly came up here and
21 filed their proof of claims and have been pursuing the
22 claims and that are included or denied in regards to the
23 circumstances of this schedule of determinations.

24 And I might add of those five, four are
25 accepted.

1 One has been denied and that was a personal
2 injury claimant that was supposedly injured at the Park
3 Place facility. And as I understand it, is suing any and
4 everyone. We do not address personal injury claims
5 through the Receivership, Your Honor, and we denied that
6 as improper. And he hasn't objected.

7 So we're forging on with those claims of those
8 who chose to come and avail themselves of this forum and
9 avail themselves of the proof-of-claim process. Now the
10 others that have chosen not to, we see Reliance's efforts
11 as being in contradiction to established Receivership
12 principles. And is that if an individual receives notice
13 of a claim and notice of the ability to file a proof of
14 claim, then he or she cannot have someone else do it for
15 them. It's a circumstance that all of these individuals
16 that on behalf of whom Reliance has filed its omnibus
17 claim, all had the opportunity and chose not to do so.

18 And we think that that's improper just based
19 upon the fact that once you receive Notice, and once you
20 know that it's up to you to champion your claim in a
21 liquidation, you can't have someone do it for you
22 derivatively.

23 Your Honor, --

24 CHANCELLOR STAFFORD: Now that sounds like a
25 good statement, but is there any law that says that?

1 MR. MATHERNE: I have not researched the point
2 to have a case to give to you, Your Honor.

3 CHANCELLOR STAFFORD: I mean Reliance is, in
4 fact, the state-appointed Receiver, correct?

5 MR. MATHERNE: In the state of Texas, Your
6 Honor.

7 CHANCELLOR STAFFORD: The state of Texas has
8 recognized Reliance as representing or being the Receiver.
9 And all these folks, I assume, that Reliance has filed a
10 claim for in this action, have filed a claim in the Texas
11 action?

12 MR. MATHERNE: According to Reliance, yes. That
13 is their omnibus claim of an estimated amount on behalf of
14 everyone that's claimed down there.

15 CHANCELLOR STAFFORD: Okay.

16 MR. MATHERNE: What distinguish --

17 CHANCELLOR STAFFORD: Go ahead. I'm sorry.

18 MR. MATHERNE: I mean I think the circumstances
19 I see that distinguishes it is, if those individuals had
20 never had Notice of the claims of their ability to pursue
21 a claim here, then Reliance could be coming forward in
22 regards to its claim.

23 But we, with Reliance's knowledge and based upon
24 information that Reliance gave to us, their list of
25 claimants, we gave Notice to all of these that the

1 proceedings needed to be up here and that they had an
2 individualized claim that they could pursue.

3 And, Your Honor, I'm not trying to say that
4 Reliance is not a Texas-appointed Receiver that doesn't
5 have duties and responsibilities of its own. But when you
6 are in a circumstance of notifying individuals, then that
7 individual cannot just sort of tell someone else to -- or
8 empower someone else to pursue the claim for them. At
9 least that's my position on this, Your Honor.

10 CHANCELLOR STAFFORD: Are you saying Reliance
11 doesn't have authority to do this?

12 MR. MATHERNE: I have not read the Texas court
13 orders appointing Reliance. I just have to rely upon the
14 fact that, if it's similar to the circumstances here, I
15 think we would look at it from a perspective of saying,
16 hey, if you, the individual claimant, have Notice, and you
17 have a stake in doing something, then you need to -- in a
18 form outside of the one that I'm Receiver for, then you
19 need to go pursue that on your own and not tax my estate's
20 dollars and cents in doing so.

21 Now, Your Honor, that brings perhaps to the --
22 one of the final points I want to make on this is that the
23 effect of allowing Reliance's claim would be to effect a
24 severe dilution to the ability to pay. It would lessen
25 the percentage that all the other claimants in this

1 proceeding can expect otherwise from the Tyler, Texas
2 circumstance.

3 Your Honor, we did -- because of that, we did
4 send a copy of this or a notice of this of Reliance's
5 objections to all of the claimants in our Receivership
6 that may claim related to the Tyler, Texas default.

7 And we have received two letters that object to
8 this on that basis. And I'm not sure if the court has
9 seen those. One is from the President of East Texas
10 Therapy Solutions. The other is from the President of
11 Therapy Management Solutions.

12 CHANCELLOR STAFFORD: I've got the Therapy
13 Management Solutions one. That's okay. I don't need it.

14 MR. MATHERNE: Both of these are vendors in
15 Texas that have claims in the Texas proceedings but that
16 heeded our Notice and came up here and filed claims here.
17 And they state that it's a circumstance of unfairness and
18 dilution if Reliance is able to do what it espouses to do
19 in their objection.

20 That they have taken the initiative. None of
21 the other claimants down there in Texas should be rewarded
22 by virtue of the fact that they disregarded the Notice
23 that they received and acted on. And in an equitable
24 level that they should -- and that they should not have
25 their claims diluted and that they should gain the benefit

1 of their coming to this forum and expending energies to
2 make a claim here.

3 Your Honor, we could see a dilution of the
4 payment to not only these kinds of claimants but also to
5 Tyler, Texas bondholders in the amount of -- basically
6 cutting in half what they would otherwise have in this --
7 expect from this Receivership.

8 For those reasons, Your Honor, I think that the
9 circumstances should be seen as having Reliance's
10 objections overruled, first, based on the circumstances of
11 being duplicative of those claims already filed here. But
12 then secondly as being improper because of the Notice and
13 knowledge that all the other claimants had and disregarded
14 and did not act on. Because of those individualized
15 Notices the circumstances of the Texas receiver coming
16 forward here to make claims is derivative and improper.

17 For those reasons, Your Honor, we would ask that
18 it be overruled.

19 CHANCELLOR STAFFORD: Assuming that the Receiver
20 had the authority to do this, was the claim timely filed?

21 MR. MATHERNE: Yes, Your Honor.

22 CHANCELLOR STAFFORD: Mr. Turner?

23 MR. TURNER: You said Reliance did file a timely
24 claim?

25 MR. MATHERNE: Yes.

1 MR. TURNER: Your Honor, on behalf of Reliance,
2 I must say that I cannot disagree with any of the facts
3 stated by Mr. Matherne. And I simply do not know why the
4 individual bondholders did not file their own claims.

5 But I don't think that there is any authority
6 for saying that the Receiver there cannot file an omnibus
7 claim on behalf of all of them. And that one was timely
8 filed. And we think that it should be allowed.

9 I assume that Reliance expected the individual
10 bondholders to file their own claims. And when they found
11 out that some of them had not, that they filed this
12 omnibus claim on their behalf. And I think that they had
13 a right to do that. I don't think there's any authority
14 to the contrary.

15 And any time you allow a claim, if there's not
16 enough money to pay everybody, it always dilutes the
17 claims of other claim holders.

18 So for that reason, we think that the Court
19 should reconsider the denial of this claim and allow it to
20 be considered along with the other claims that have been
21 approved.

22 CHANCELLOR STAFFORD: Thank you, sir.

23 Mr. Matherne.

24 MR. MATHERNE: My position would be repetitive.

25 CHANCELLOR STAFFORD: I'm not sure I'm --

1 MR. MATHERNE: Your Honor, one correction. And
2 I don't think Mr. Turner meant it, but when he talked
3 about bondholders, all the claimants in the Texas
4 Receivership and the ones that have seen fit to come up
5 here and pursue are vendors and trade creditors. I'm
6 unaware of any bondholders that are at play as claimants
7 in the local Texas Receivership.

8 MR. TURNER: That just emphasizes the
9 shallowness of my involvement in this case, Your Honor.
10 (Laughter) But I will accept that correction.

11 CHANCELLOR STAFFORD: I understand. I too feel
12 rather shallow in this case. (Laughter)

13 MR. MATHERNE: But, Your Honor, as far as the
14 proof of the claims received in this Receivership, the
15 bulk of them are bondholder claims. They are pursuing the
16 amounts in the pooled fiduciary account that should have
17 been there that should have been being held on behalf of
18 the bondholders. That's why the dilution, while objected
19 to by these two trade creditors, is even more pronounced
20 when you look at it from the perspective of the
21 bondholders not getting as much as they would otherwise
22 receive.

23 CHANCELLOR STAFFORD: I understand the logic of
24 the situation. My concern though is more with substance
25 in this situation. And by that I mean this. Filing of a

1 proof of claim from my limited knowledge of all this, and
2 my analogy will deal with Bankruptcy Court. But the
3 filing of a proof of claim is to provide notice to the
4 estate that I'm claiming some interest in this.

5 Obviously this Receiver, Reliance Healthcare,
6 filed a timely proof of claim. The real issue I think for
7 the Court's determination is whether Reliance Healthcare
8 as Receiver acted within the scope of its authority when
9 it in fact filed this proof of claim.

10 Neither Mr. Matherne or Mr. Turner are prepared
11 at this point in time to give me any authority one way or
12 the other.

13 If, in fact, Reliance acted within the scope of
14 its authority, I think that it has the right to file the
15 proof of claim. If it did not have the authority to do
16 that, then I think we've got another situation.

17 So what I'm going to do is -- I hope I don't
18 mess up the timetable on this, but I'm going to need to
19 see some authority one way or the other. Maybe have
20 further hearing on this matter if necessary.

21 But I think it is substantive enough that I'm
22 unable to rule at this point in time. I'd just be
23 guessing. And we certainly don't want to get in that
24 situation. I don't mind being wrong, but I'd like to at
25 least be wrong for the right reason.

1 So I'm not going to rule on this particular
2 claim. Let's just reserve this. You and Mr. Turner can
3 submit whatever you want to. And if we need to have a
4 further Evidentiary Hearing, let me know. If I can rule
5 based on whatever it is you find, that's fine too. I'll
6 just leave it like that.

7 Is that all right, gentlemen?

8 MR. TURNER: Yes, sir.

9 MR. MATHERNE: Yes, Your Honor.

10 And, Your Honor, --

11 CHANCELLOR STAFFORD: Let me stop you just a
12 second.

13 As far as the claims being duplicative, I agree
14 with you about that. They can't be duplicative. If
15 Reliance can't file this, then the proof of claims filed
16 by the individuals as obviously not objected to are okay.

17 If Reliance can file the proof of claim, the
18 omnibus proof of claims, then the individual ones would be
19 stricken. I assume would be the best way to handle that.

20 MR. MATHERNE: Yes, Your Honor. And the one
21 thing -- and again in regards to the presentation of the
22 schedule of claims determinations and the methodology,
23 because the methodology is -- segregates out and provides
24 pro rata funding for different ones, if this --

25 CHANCELLOR STAFFORD: Would have an impact on

1 that.

2 MR. MATHERNE: No, no, I think we can go forward

3 --

4 CHANCELLOR STAFFORD: Okay.

5 MR. MATHERNE: -- without it having impact. All
6 we would do would be just to know how much under any
7 approved distribution would be -- Tyler, Texas would be
8 funded, and we'd hold that back --

9 CHANCELLOR STAFFORD: Okay.

10 MR. MATHERNE: -- until these other things were
11 straightened out.

12 CHANCELLOR STAFFORD: I was thinking perhaps
13 that you might need to create another class, just off the
14 top of my head. But I don't know.

15 MR. MATHERNE: My initial position is that we
16 would not, and that it would be just the holding in
17 abeyance of whatever interim distribution funded amount
18 that would have been allocated to the Tyler, Texas
19 distribution would just be held up --

20 CHANCELLOR STAFFORD: Okay.

21 MR. MATHERNE: -- pending these clarifications
22 and further orders.

23 CHANCELLOR STAFFORD: I have no objection to
24 doing it that way.

25 MR. MATHERNE: Thank you, Your Honor.

1 So we will not submit an order. It's just going
2 to be seen as not acted upon for the briefing and
3 argument.

4 CHANCELLOR STAFFORD: Right. And I will depend
5 upon you gentlemen to take care of that aspect of it for
6 me.

7 MR. MATHERNE: Thank you, Your Honor.

8 MR. TURNER: That's fine.

9 CHANCELLOR STAFFORD: Let's see. The next one
10 would be?

11 MR. MATHERNE: The Bates' objection, Your Honor.
12 (Pause)

13 CHANCELLOR STAFFORD: All right, sir.

14 MR. MATHERNE: Your Honor, we -- Mr. Bates has
15 filed an objection to the schedule of determinations and
16 the methodology. It may just be my reading of it, but I'm
17 not sure that it's really any -- well, no, that's not true
18 -- I was about to say I'm not sure there's much objection
19 to the schedule of claims determination. They seem to
20 focus on the methodology. And further they seem to focus
21 on a lot more money should be in the pooled trust account
22 to distribute.

23 MR. TURNER: Excuse me, Mr. Matherne.

24 Your Honor, I don't believe that this covers my
25 client. If I can be excused?

CAUSE NO. 99-2572-A

FILED

NOV 19 1999

SENTINEL TRUST COMPANY,

Plaintiff,

v.

PARK PLACE, LTD., and TYLER HEALTH
FACILITIES DEVELOPMENT
CORPORATION,

Defendants.

IN THE DISTRICT COURT OF
Becky Dempsey
By *[Signature]* Clerk of Smith Co., Tx
Deputy

SMITH COUNTY, TEXAS

7TH JUDICIAL DISTRICT

AGREED ORDER APPOINTING RECEIVER AND GRANTING INJUNCTIVE RELIEF

This cause came before the Court on Plaintiff's Verified Complaint For Appointment Of Receiver And Injunctive Relief, and the Court, having considered the Verified Complaint in this action, makes the following findings of fact and conclusions of law:

1. Sentinel is a Tennessee corporation with its principal place of business located at 8122 Sawyer Brown Road, Nashville, Tennessee 37221.
2. Defendant Park Place, Ltd. ("Borrower") is a Texas limited partnership with its principal place of business located at 2450 East Fifth Street, Tyler, Texas 75701.
3. The Tyler Health Facilities Development Corporation ("Issuer") is a Texas nonprofit corporation organized by the City of Tyler, Texas, and existing pursuant to the Health Facilities Development Act, Article 1528j, Vernon's Texas Civil Statutes.
4. Jurisdiction and venue are proper in this Court.

5. Issuer, Borrower, and Sentinel as trustee are the proper parties to that December 1, 1985 Loan Agreement (the "Loan Agreement"), as amended from time to time, that Building Loan Agreement (the "Building Loan Agreement"), that December 20, 1985 Deed of Trust Note (the "Note"), that December 1, 1985 Indenture of Trust and Security Agreement (the "Indenture"), that December 20, 1985 Deed of Trust and Security Agreement (and UCC Financing Statement for Fixture Filing) (the "Deed of Trust"), and certain UCC-1 Financing Statements (collectively, with the Loan Agreement, Building Loan Agreement, the Note, the Indenture, and the Deed of Trust, and all amendments to thereto, the "Loan Documents"), which are the subject of and made a part of the Verified Complaint.

6. The purpose of the Loan Documents, and the funds loaned thereunder, was to finance Borrower's acquisition, construction, and installation of a 120-bed, skilled nursing care facility located at 2450 East Fifth Street, Tyler, Texas (the "Project"). Pursuant to the Indenture, the Issuer was authorized to issue \$6,055,000 of Health Facilities Revenue Bonds, Series 1985 (collectively the "Bonds"), the proceeds of which were used to fund the loan to Borrower.

7. Sentinel is the successor trustee under the Loan Documents, and the proper party to enforce the rights thereunder.

8. Pursuant to the Loan Documents, Sentinel has liens against and security interests in the Project, including the following described property in order to secure payment of the Bonds, and all other obligations of the Borrower under the Loan Documents:

- (i) the land (the real estate or any interest therein);
- (ii) improvements (any and all buildings, structures, open parking areas and other improvements, and any and all accessions, additions, replacements, substitutions or alterations thereof or appurtenances thereto, now or at any time hereafter situate, placed or constructed upon the land or any part thereof);

(iii) fixtures (all materials, supplies, equipment, apparatus and other items now or hereafter attached to, installed on or in the land or the improvements or which in some fashion are deemed fixtures to the land or improvements under the laws of the State of Texas, including without limitation all items of personalty to the extent that the same may be deemed fixtures under applicable law);

(iv) personalty (all of the right, title and interest of Borrower in and to tangible and intangible personal property, including all equipment, inventory, goods, consumer goods, accounts, chattel paper, instruments, money, general intangibles, documents, minerals, crops and timber (as those terms are defined in the Texas Business and Commerce Code) which is attached to, installed on or placed or used on, in connection with or is acquired or such attachment, installation, placement or use, or which arises out of the development, improvement, financing, leasing, operation or use of, the land, the improvements, fixtures or other goods located on the land or improvements, together with all additions, accessions, accessories, amendments and modifications thereto, extensions, renewals, enlargements and proceeds thereof, substitutions therefor, and income and profits therefrom. The following are included, without limitation, in the definition of personalty: furnishing, building materials, supplies, machines, engines, boilers, stokers, pumps, fans, vents, blowers, dynamos, furnaces, elevators, ducts, shafts, pipes, furniture, cabinets, shades, blinds, screens, plumbing, heating, air conditioning, lighting, lifting, ventilating, refrigerating, cooking, medical, laundry and incinerating equipment, partitions, drapes, carpets, rugs and other floor coverings, awnings, call and sprinkler systems, fire prevention and extinguishing apparatus and equipment, water tanks, swimming pools, compressors, vacuum cleaning systems, disposals, dishwashers, ranges, ovens, kitchen equipment, cafeteria equipment, recreational equipment, loan commitments, financing arrangements, bonds, construction contracts, leases, licenses, permits, sales contracts, insurance policies and proceeds therefrom, plans and specifications, surveys, rent rolls, books and records, funds, bank deposits and all other intangible personal property);

(v) leases (any and all leases, subleases, licenses, concessions or other agreements (written or verbal, now or hereafter in effect) which grant a possessory interest in and to, or the right to extract, mine, reside in, sell or uses the mortgaged property, and all other agreements, including, but not limited to, management agreements, utility contracts, maintenance agreements and service contracts, which in any way relate to the use, occupancy, operation, maintenance, enjoyment or ownership of the mortgaged property, save and except any and all leases, subleases of other agreements pursuant to which Borrower is granted a possessory interest in the land); and

(vi) rents (all of the rents, revenues, income, proceeds, royalties, profits and other benefits paid or payable for using, leasing, licensing, possessing operating from or in, residing in, selling, mining, extracting or otherwise enjoying or using the mortgaged property); together with:

(vii) all rights, privileges, tenements, hereditments, rights-of-way, easements, appendages and appurtenances in anywise appertaining thereto, and all right, title and interest of Borrower in and to any street, ways, alleys, strips or gores of land adjoining the land or any part thereof, which Borrower now owns or at any time hereafter acquires;

(viii) all betterments, accessions, additions, appurtenances, substitutions, replacements and revisions thereof and thereto and all reversions and remainders therein;

(ix) all of Borrower's right, title and interest in and to any award, remuneration, settlement or compensation heretofore made or hereafter to be made by any governmental authority to Borrower, including those for any vacation of, or change or grade in, any streets affecting the land or the improvements;

(x) all plans and specifications for the improvements; all contracts and subcontracts relating to the improvements, all deposits (including tenant's security deposits), funds, accounts, contract rights, instruments, documents, general intangibles (including trademarks, service marks, trade names and symbols used in connection therewith), and notes or chattel paper arising from or by virtue of any transactions;

(xi) all other interest of every kind and character which Borrower now has or at any time hereafter acquires in and to the above described real and personal property and all property which is used or useful in connection therewith, including rights of ingress and egress, easements, licenses, and all reversionary rights or interest of Borrower with respect to such property. To the extent permitted by law all of the foregoing personal property and fixtures are to be deemed and held to be a part of and affixed to the real property. In the event the estate of the Borrower in and to any of the land and improvements is a leasehold estate, this conveyance shall include and the lien, security interest and assignment created hereby shall encumber and extend to all other, further or additional titles, estates, interest or rights which may exist now or at any time be acquired by Borrower in or to the property demised under the lease creating such leasehold estate and including Borrower's rights, if any, to purchase the property demised under such lease and, if fee simple title to any of such property shall ever become vested in Borrower, such fee simple interest shall be encumbered by this Deed of Trust in the same manner as if Borrower had fee simple title to such property as of the date of execution hereof; and

(xii) any and all other security and collateral of any nature whatsoever, now or hereafter given for the repayment of the indebtedness or the performance and discharge of the obligations.

(Hereinafter, the above-described property may be referred to collectively as the "Collateral."

That portion of the Collateral consisting of rents, revenues, income, proceeds, royalties, profits, cash on hand, accounts, funds, deposits, money, instruments, documents of title, and other cash

or cash equivalents generated by or from the Project may be referred to collectively as the "Cash Collateral." The term "Collateral" shall be deemed to include "Cash Collateral").

9. Prior to the entry of this order, Borrower failed to make timely its debt service payment to Sentinel which was due on June 1, 1999, as required by the Loan Documents. The Borrower is in default of its respective obligations under the Loan Documents.

10. On June 15, 1999, Sentinel declared a default under the Loan Documents, sending proper notice to Borrower and Issuer. As of the current time, neither Borrower nor Issuer has cured the default, and therefore Borrower remains in default.

11. Section 7.6(a) of the Deed of Trust gives Sentinel the right, as indenture trustee, to seek the appointment of a receiver to take possession, custody, and control of the Collateral for the purpose of renting, maintaining, and operating same while Sentinel pursues its other remedies under the Loan Documents, including foreclosure. In addition to its rights granted under the Loan Documents, Sentinel is also entitled to appointment of a receiver as a matter of equity and under Tex. Civ. Prac. & Rem. Code Ann. § 64.001(a)(2) (West 1999).

12. Because of the nature of the Collateral, its ability to be dissipated, the failure of the Borrower to provide to Sentinel an accounting of the funds or the financial condition of the Project as required under the Loan Documents, the failure of the Borrower to pay debt service while enjoying possession of the Project, the likelihood based on information from the Borrower that it will not make the next debt service payment when due, the importance that the Project continue as a going concern to protect its value, and the lack of harm to defendants from granting extraordinary relief, the Court finds that appointment of a receiver is appropriate, and will do more good than harm.

13. In addition, for these reasons, and in order to secure the health and welfare of the residents of the Project by assuring that appropriate healthcare continues to be provided them without interruption, the Court finds that Sentinel is entitled to temporary injunctive relief. Without extraordinary relief, Sentinel will suffer immediate and irreparable injury which will tend to render final judgment ineffectual in this action.

Accordingly, it is hereby ORDERED, ADJUDGED, AND DECREED, that:

1. Plaintiff's Motion For Appointment of A Receiver and Injunctive Relief is hereby GRANTED.

2. Dr. Health Services is hereby appointed as Receiver of all of the Collateral, and is hereby directed, immediately, to enter upon, receive, and take complete possession of all of the property and instruments embodying the property rights and the income, and profits, including without limitation, cash on hand to operate the Project located on said premises. The Clerk of the Court is hereby directed to issue such Writs of Possession as may be necessary for the Receiver herein, without further Order of the Court.

3. The Receiver is hereby granted all of the usual, necessary, and incidental powers of Receivers for the purposes of managing, operating, and maintaining the property and property rights as he may consider necessary, including the power and authority to:

(a) take possession of the Collateral, including all goods, chattels, and equipment thereon, and all books and records relating to same;

(b) contact residents and any third-party payors of the Project and receive, collect, and preserve from them all rents and other sums due the Borrower;

- (c) receive, collect, and preserve all incomes, profits, and other revenues generated from the Collateral;
- (d) manage and operate the Collateral;
- (e) enter into all contracts necessary to continue, operate, maintain, and preserve the Collateral;
- (f) pay from the revenues of the Project the ordinary and necessary expenses of operating and maintaining the Collateral incurred from and after the date of the receiver's appointment and said other reasonable expenses necessary to maintain the Collateral; provided, however, the receiver may not be permitted to exceed in any given month in the aggregate or with respect to any particular line item the expenses set forth in such budget approved hereafter by Sentinel and the receiver, without further order of this Court after notice to the parties and an opportunity for hearing;
- (g) pay over to Sentinel all excess revenues;
- (h) make an accounting to keep accurate records concerning the Collateral, including the actual income collected and expenses paid each month, and to make such records available to Sentinel and the Court;
- (i) permit Sentinel and its agents and independent contractors to inspect fully the Collateral and the Borrower's books and records;
- (j) permit the Issuer and the Borrower to inspect fully the Collateral;
- (k) appoint agents and employees that are necessary to take charge of, repair, and maintain the Collateral;

- (l) rent, lease, or license from time to time any part of the Collateral that may be deemed appropriate;
- (m) make, cancel, enforce, or modify contracts, leases, or licenses relating to any part of the Collateral;
- (n) operate and manage all other services which are a part of the operation of the Collateral;
- (o) comply with all requirements of all governmental authorities;
- (p) pay taxes, assessments, and utility charges;
- (q) employ such persons as necessary to operate the skilled nursing care facility and to collect from any source, government or private or third-party payor, all sums which may be due for the services or goods provided any person living in the skilled nursing care facility;
- (r) pay himself a reasonable fee, subject to court approval, for the time expended in carrying out his duties as receiver;
- (s) employ independent accountants and legal counsel to assist the receiver in the performance of his duties as may be necessary during the period of the receivership and pay reasonable value for those services;
- (t) institute, prosecute, defend, and settle such legal proceedings, as the receiver deems necessary, relating to the protection or proper care of the Collateral and the collection of rents or other payments of any description past due, currently due, or hereafter to become due, including summary proceedings for the removal of occupants or other persons therefrom, and to employ counsel therefor;

(u) obtain such insurance as necessary to insure the acts and conduct of the receiver and those persons who he may employ to carry out the duties voted upon him;

(v) take all such actions and expend all such sums as may be necessary to obtain or maintain in effect or transfer all licenses, insurance, zoning approvals, certificates of need, provider numbers, and other approvals to ensure that the property may continue to be used as a commercial building and specifically as a skilled nursing care facility;

(w) generally do, execute, and perform any other act, deed, matter, or thing whatsoever that the Receiver reasonably deems ought to be done, executed, and performed in and about or with respect to the Collateral or its revenues; and

(x) hire on an interim basis a management company, if necessary, to help manage and operate the Project on terms consistent with the order of this Court appointing the receiver and in accordance with the monthly budget contemplated herein;

4. The Receiver shall protect and conserve the Collateral and property rights; maintain appropriate insurance; endorse checks and drafts now or hereafter made payable to Borrower, and the servants, agents, and employees thereof concerning such rents, income, and profits; take possession insofar as reasonably possible of all patient or tenant deposits, leases, books, records, documents, patient or tenant lists, and any and all pertinent records, and perform all of the acts reasonably necessary to sequester the income and to operate and manage the Collateral and property rights.

5. The Receiver is directed and required to keep full and complete records of all receipts and disbursements that may arise from the operation of the property. The Receiver is further directed to deposit all funds received from the operation of the property into a Receiver's account, which shall be opened specifically for the operation of the Receivership and shall be maintained at a federally insured depository. The Receiver shall submit and file with the court income and disbursement statements on a monthly basis during the term of the Receivership and shall deliver copies of such statements to counsel of record for Plaintiff and for Defendants. The Receiver shall submit and file such other accountings as the Court may require from time to time.

6. The Receiver shall be entitled to collect all Medicaid and Medicare payments relating to the Project, and the Medicaid administrator for Texas and Medicare administrator are hereby directed to forward all Medicaid and Medicare payments relating to the Project to the Receiver and to honor all future allowable Medicaid and Medicare claims submitted by the Receiver, until further order of the Court.

7. The Receiver shall not sell or dispose of all or substantially all of the Collateral except upon further order of this Court after notice to the parties and an opportunity for hearing.

8. In addition, in accordance with Sentinel's request for injunctive relief, it is hereby ORDERED, ADJUDGED, AND DECREED, that Borrower, and its successors, assigns, agents, employees, attorneys, or anyone acting for or in concert with it are:

(1) enjoined from possessing or managing the Collateral and from interfering in any way with the possession or management of the Collateral by the receiver during the tenancy of the receiver;

(2) enjoined from collecting, withdrawing, transferring, conveying, concealing, or otherwise disposing of the Cash Collateral, including the revenues derived

therefrom, subsequent to the entry of this order and during the tenure of a receiver, requiring Borrower to pay the Cash Collateral and the revenues derived therefrom to the receiver;

(3) enjoined from removing any of the Collateral and from removing, destroying, concealing, changing, or altering in any manner any of the books or records relating to the ownership, possession, or operation of the Collateral; and

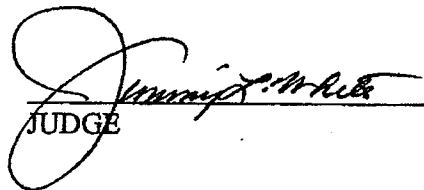
(4) required to pay and turn over immediately to the receiver, and to perform all acts necessary to transfer immediately to the receiver, accounts receivable, all funds on hand in cash, and all funds held in deposit accounts of or for the benefit of the Borrower arising from the ownership, possession, or operation of the Collateral and all accounts, accounts receivable, instruments, and any other collectibles and all keys, books, records, equipment, and all things in any manner related to the ownership, possession or operation of the Project; and

9. This order shall be without prejudice to the rights of Sentinel, or its assignee, without further notice or order of this Court, to foreclose on the Collateral and to exercise any and all other rights and remedies provided for under the Loan Documents, at law, and in equity. The Receiver's authority, and any agreements, including management agreements, entered into by the Receiver pursuant to the terms requested above shall terminate upon the earlier of foreclosure of the Collateral by Sentinel or upon further order of the Court, without any further liability by the receiver or Sentinel for termination of same;

10. IT IS FURTHER ORDERED THAT the Receiver shall post a bond in the amount of \$ 10,000.⁰⁰, with sufficient surety, prior to taking possession of the Project and assuming the responsibilities of Receiver.


11. IT IS FURTHER ORDERED THAT Sentinel shall post an injunction bond in the amount of \$ 1,000.⁰⁰, with sufficient surety, and upon such posting the injunction provisions of this order shall take effect.

12. The Court retains jurisdiction to enter any further orders which shall be necessary to carry the terms and conditions of this Order into effect.
Trial is hereby set for May 15, 2000 at 9:00 am
SO ORDERED, ADJUDGED, AND DECREED, this 19th day of November, 1999.


JUDGE

APPROVED FOR ENTRY:

RAMEY & FLOCK

By: 
Deron Dacus
A Professional Corporation
500 First City Place
Tyler, TX 75702
(903) 597-3301

ATTORNEYS FOR PLAINTIFF SENTINEL TRUST COMPANY

HAYNES AND BOONE, LLP

By: Sarah B. Foster by Dan R. Doe
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Austin, Texas 78701
(512) 867-8412

ATTORNEYS FOR DEFENDANT PARK PLACE, LTD.

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing instrument was served upon the attorneys of record of all parties to the above cause in accordance with the applicable Rules of Civil Procedure on this the 19th day of November, 1999 as follows:

Sarah B. Foster
Haynes & Boone, L.L.P.
600 Congress Avenue, Suite 1600
Austin, TX 78701-3236

VIA FACSIMILE

Preston T. Towber
Goforth, Lewis & Williams, L.L.P.
2200 Texaco Heritage Plaza
1111 Bagby Street
Houston, TX 77002

VIA FACSIMILE

Michael E. Jones
Potter, Minton, Roberts, Davis & Jones, P.C.
500 Plaza Tower
110 North College Street
Tyler, TX 75702

VIA FACSIMILE



DERON R. DACUS

NO. 99-2572-A

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SENTINEL TRUST COMPANY,

Plaintiff,

v.

PARK PLACE, LTD., and TYLER HEALTH
FACILITIES DEVELOPMENT
CORPORATION,

Defendants.

IN THE DISTRICT COURT OF

BY *[Signature]*
DEPUTY

SMITH COUNTY, TEXAS

7TH JUDICIAL DISTRICT

ORDER SUBSTITUTING RECEIVER

This matter came on for consideration on the Emergency Motion To Substitute Receiver (the "Motion") filed herein by Plaintiff, Sentinel Trust Company, as indenture trustee ("Sentinel"). This Court, having reviewed the pleadings, considered the statements of counsel, and being fully advised in the premises, finds as follows:

1. Sentinel is a Tennessee corporation with its principal place of business located in Hohenwald, Tennessee.
2. Sentinel is the indenture trustee for those municipal bonds issued in the original principal face amount of \$6,055,000 by the Tyler Health Facilities Development Corporation ("Issuer") on or about December 1, 1985 (the "Bonds" or the "Bond Issue").
3. Among the assets securing the Bond Issue is that 120-bed, skilled nursing facility located at 2450 East Fifth Street in Tyler, Texas, and all personal property located thereon (the "Project"), including the revenues generated thereby.
4. Sentinel initiated this action by filing Plaintiff's Original Petition And Verified Complaint For Appointment Of Receiver And Injunctive Relief seeking, among other things, the

appointment of a receiver for the assets of Defendant Park Place, Ltd. ("Borrower"), which serve as Collateral for the Bond Issue.

5. This Court has appointed Tri Health Services, Inc. ("Tri Health" or the "Receiver"), as receiver for the Collateral, pursuant to the Agreed Order Appointing Receiver And Granting Injunctive Relief (the "Receivership Order"), which the Court entered in this case on November 19, 1999. Unless otherwise indicated, all capitalized terms herein shall have the same meaning as ascribed to them in the Receivership Order.

6. All the ownership interests of the Borrower are currently held by Park Place Holdings, Inc., an entity controlled by the Receiver pursuant to that Agreed Order Approving Settlement And Continuing Receivership which was entered by this Court on December 14, 2000.

7. On July 24, 2002, at Sentinel's request, this Court entered its Order Authorizing Receiver To Engage Listing Agent (the "Listing Order").

8. On December 6, 2002, this Court entered its Amended Order Authorizing Receiver To Sell Project (the "First Sale Order") authorizing the Receiver to sell the Project.

9. The Receiver conducted the first sale on January 13, 2003, at 1:00 p.m., local time (the "First Sale Date"), at the offices of Thompson & Knight, LLP, 3300 Three Allen Center, 333 Clay Street, Houston, Texas, 77002.

10. The first sale did not close.

11. Subsequently, on August 13, 2003, this Court entered its Amended Second Order Authorizing Receiver To Sell Project (the "Second Sale Order").

12. The Receiver conducted the second sale on September 15, 2003, at 1:00 p.m., local time (the "Second Sale Date"), at the offices of Thompson & Knight, LLP, 3300 Three Allen Center, 333 Clay Street, Houston, Texas, 77002.

13. The second sale closed on September 30, 2003.

14. On September 25, 2003, Sentinel learned for the first time that James E. Koch, the President of Tri Health, along with six other defendants, had been indicted on August 28, 2002, in the United States District Court for the District of South Carolina, on charges of Conspiracy to Defraud Medicare and Obstruction of Criminal Investigation of Health Care Offenses, and that Mr. Koch had entered into a plea agreement on September 16, 2003, whereby a guilty plea was entered as to a certain lesser offense. Attached hereto as Group Exhibit A are true and correct copies of the indictment and plea agreement.

15. As best this Court can ascertain, none of the charges relate to the Project or Tri Health's activities as Receiver in this case. Nevertheless, on October 1, 2003, Sentinel notified Mr. Koch, as President of the Receiver, that Sentinel intended to ask this Court to replace the Receiver in this case as a result of such criminal charges and the plea agreement.

16. In light of Mr. Koch's indictment and guilty plea, Sentinel believes, and the Court is convinced, that Tri Health's removal as Receiver and the appointment of Reliance Health Care Management, Inc. ("Reliance Health Care") as Substitute Receiver (the "Substitute Receiver") is in the best interests of Sentinel, the receivership estate, and any other party who might assert an interest in the Project or other Collateral. Reliance Health Care has the requisite skill and resources to be the Substitute Receiver in this case.

17. The substitution of Reliance Health Care for Tri Health, as Receiver, will not result in any prejudice to the parties.

IT IS THEREFORE ORDERED, ADJUDGED and DECREED that Tri Health is relieved of all duties as Receiver upon entry of this Order. Reliance Health Care shall be and hereby is duly appointed as the Substitute Receiver, and shall replace Tri Health in that capacity, to take

immediate possession and control of the Project and other Collateral, including all cash, proceeds, profits, and revenues generated therefrom, either now existing or hereafter acquired.

IT IS FURTHER ORDERED that the Substitute Receiver is hereby granted all the usual, necessary, and incidental rights, powers, duties, authority, and protections ordinarily granted to a receiver for the purposes of managing, operating, maintaining, and preserving the Collateral, and which were previously granted to the Receiver in the Receivership Order.

IT IS FURTHER ORDERED that the Substitute Receiver is also hereby granted any and all other rights as the Court may consider necessary, including but not limited to the powers enumerated in the Receivership Order.

IT IS FURTHER ORDERED that the Substitute Receiver is hereby empowered to take all necessary action to sell any remaining Collateral, upon terms hereafter approved by Sentinel and the Court.

IT IS FURTHER ORDERED that the compensation of the Substitute Receiver shall be paid in the same manner as the current Receiver in the amount of \$85.00 per hour for professional services and \$40.00 per hour for non-professional services, and that the Substitute Receiver shall be reimbursed for its expenses in accordance with the terms of the Receivership Order.

IT IS FURTHER ORDERED that Tri Health is prohibited from interfering in any way with the Substitute Receiver.

IT IS FURTHER ORDERED that Tri Health is prohibited from collecting, withdrawing, transferring, conveying, concealing or otherwise disposing of the Collateral, including but not limited to any profits, revenues and proceeds generated from the Project and shall immediately pay all profits, revenues and proceeds generated from the Project to the Substitute Receiver.

IT IS FURTHER ORDERED that Tri Health is prohibited from removing any of the Collateral or destroying, removing, concealing, changing or altering in any manner any of the books or records relating to the ownership, possession or operation of the Project or other Collateral.

IT IS FURTHER ORDERED that Tri Health is required to pay and turn over immediately to the Substitute Receiver, and to perform all acts necessary to transfer immediately to the Substitute Receiver, all accounts receivable and other collectibles, all funds on hand in cash, and all funds held in deposit accounts of or for the benefit of the Project, Receiver or Borrower arising from the ownership, possession or operation of the Project or other Collateral, and all keys, books, records, equipment, and other things in any manner related to the ownership, possession or operation of the Project or other Collateral.

IT IS FURTHER ORDERED that Tri Health shall prepare a final written accounting of all receipts, disbursements, and expenses incurred during its tenure as Receiver (the "Final Report") to be filed with this Court and served upon all parties hereto within ten (10) days of entry of this Order. The Final Report shall include Tri Health's fees and expenses through the date of such accounting, and shall specify that amount of fees and expenses which remains unpaid as of that date. Such Final Report shall also include (1) how much cash and accounts receivable, if any, the Receiver is transferring to the Substitute Receiver, and (2) the name and address of any post-receivership creditors of the Project, as well as the amount and nature of any outstanding liabilities asserted by such creditors, excluding those amounts due under the Bonds and *ad valorem* taxes which have been assessed against the Project or other Collateral.

IT IS FURTHER ORDERED that Tri Health shall file with the Court and serve on counsel for Sentinel and the Substitute Receiver, within ten (10) days after entry of this Order, a motion for discharge and final fee application for final approval of all fees and expenses paid to

the Receiver during the pendency of the receivership, as well as for any amounts Tri Health claims are due and owing as of the filing of said motion (the "Final Fee Application").

IT IS FURTHER ORDERED that the Substitute Receiver and/or Sentinel shall have the right to object to such Final Fee Application, either in part or in its entirety, within thirty (30) days after the filing of the Final Fee Application.

IT IS FURTHER ORDERED that if no objections to the Receiver's Final Fee Application are filed in this Court within thirty (30) days after service of such Final Fee Application, Tri Health may cancel its bond and shall be entitled to payment of its outstanding fees and expenses as set forth in the Final Fee Application, subject to this Court's approval.

IT IS FURTHER ORDERED that the Substitute Receiver shall post a bond in the amount of \$10,000.00, with sufficient surety, prior to taking possession of the Collateral and assuming responsibilities as Substitute Receiver.

IT IS FURTHER ORDERED that the relief granted herein is without prejudice to the other relief sought by Sentinel in this matter, or such other relief to which Sentinel is entitled under the Agreement, at law or in equity.

IT IS FURTHER ORDERED that, upon proper motion and notice to all parties, any party hereto or the Substitute Receiver may seek modification of this Order for cause.

IT IS SO ORDERED.

ENTERED this 9th day of December, 2003.


PRESIDING JUDGE

Submitted by:



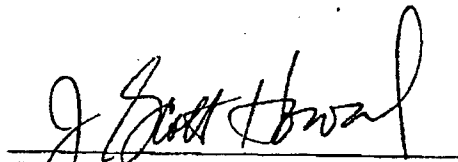
Deron R. Dacus

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ATTORNEYS FOR TRI HEALTH SERVICES, INC.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served by First Class U.S. Mail, properly addressed and postage prepaid, upon:

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Administration, Dallas Regional Office**
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Long Term Care – Regulatory, Facility
Enrollment Section**
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950 Pennsylvania Avenue, Northwest
Washington, D.C. 20530-0001

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Tyler, TX 75703

James B. Gillen, Jr.
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Tyler, TX 75701

Counsel for the Greenlaw Group

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Walnut Creek, CA 94595

Reliance Health Care Management, Inc.
Attn: Brandon A. Adams
950 Hogan Lane, Suite 5
Conway, AR 72034

On this the 7th day of November, 2003.

A handwritten signature in black ink, appearing to read "Brandon A. Adams", written over a horizontal line.